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RUEHNE/AMEMBASSY NEW DELHI 3922
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SUBJECT: LABOR PROBLEMS NEAR CHENNAI HAMPER U.S. FIRM'S OPERATIONS

1. (SBU) Summary: Labor problems severely hampered a U.S. firm's operations in late November. A local politician gathered an unruly mob to prevent the firm's contractors from entering its premises, ostensibly because some of the contractors were not local. Police eventually helped broker an agreement that allowed the U.S. company to resume full operations. In doing so, the company appears to have been pressured into breaking its labor contract at the end of the quarter and offering it to a local firm that will supply local labor. We have heard anecdotes of similar incidents in the area. These episodes may harm Tamil Nadu's reputation as a good place for foreign investment. End Summary.

Thugs shut out U.S. company's contractors

2. (SBU) Maryland-based W.R. Grace and Company, a construction product manufacturer, was nearly forced to halt production for several days starting on November 16 when a local politician and accompanying thugs prevented contracted workers from entering the company's facility outside Chennai. The labor contractor, Sagaya Annai Associates, provides nine workers for W.R. Grace's operations, five of them skilled (including a forklift operator and some chemical technicians). W.R. Grace's eight full-time employees were able to work, but production was severely limited, according to the facility's manager.

3. (SBU) Sagaya Annai's proprietor told Consulate General Chennai that the politician was ostensibly upset at the use of the skilled workers, because they hailed from a different district. (The unskilled workers, the proprietor said, hailed from local villages.) The politician demanded publicly that the contracting company use only local skilled workers. However, the proprietor opined that the real reason for the blockade was that the politician was acting on behalf of Sagaya Annai's competitors.

An offer that can't be refused

4. (SBU) Local police brokered a compromise on November 19, allowing Sagaya Annai to continue providing workers for the rest of the quarter, but compelling W.R. Grace to invite fresh bids for labor services in the next quarter. The proprietor said that his company has a year-long contract with W.R. Grace that would be broken by this arrangement. The manager of the W.R. Grace facility told us that the compromise brokered by the police was made "under duress" when a hundred or more of the politician's supporters demonstrated at the police station where the manager was speaking with police.

Not a unique situation

5. (SBU) The politician in question, Saravanan, represents a militant political party of Dalits (formerly known as "untouchables"), known as Puratchi Bharatham, which extends support to the current ruling coalition in Tamil Nadu. The party has been

active in using similar tactics to take control of labor contracts at several facilities in the area.

Comment

¶6. (SBU) Episodes like this threaten to damage Tamil Nadu's generally well-earned reputation as a good destination for investors, both foreign and domestic. The Sriperumbudur industrial area outside Chennai where this episode occurred has seen an astonishing growth of manufacturing facilities in recent years, including internationally renowned brands such as Hyundai, Nokia, Samsung, St. Gobain, Flextronics, Motorola, Renault-Nissan, BMW, and many others. We will continue to monitor this issue closely. End Comment.

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